

Message Text

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ORIGIN ARA-03

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DRAFTED BY: ARA/ECA:TSHUGART
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TO AMEMBASSY BRASILIA

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FOLLOWING IS REPEAT VIENNA 9215, SENT SECSTATE, INFOBUDAPEST
09 NOV:

QUOTE LIMITED OFFICIAL USE VIENNA 9215

DEPT. PLEASE PASS AGRICULTURE/FAS FOR FATS & OILS DIV

E.O. 11652: N/A
TAGS: EAGR, HU
SUBJECT: HUNGARY'S SOYBEAN MEAL IMPORTS FROM U.S. DECLINING

1. AGATT MET ORBAN OF AGRIMPEX FOREIGN TRADING ORGANIZATION
ON NOV. 5 TO DISCUSS LATEST PROTEIN MEAL IMPORT SITUATION
IN HUNGARY. FOLLOWING ARE MAJOR POINTS MADE BY ORBAN.

2. HUNGARY WILL IMPORT SOME 450,000 TONS SOYBEAN MEAL
IN 1976 AND ABOUT 3 TO 5 PERCENT MORE IN 1977. THE
USE OF SOYBEAN MEAL IS INCREASING IN PART BECAUSE INCREASED
DEMAND BY LIVESTOCK AND IN PART BECAUSE PROPORTION OF
SOYBEAN MEALS USED BY LIVESTOCK IS GROWING AT EXPENSE OF
PEANUTS AND FISHMEALS.

3. THE U.S. SHARE OF HUNGARIAN SOYBEAN MEAL MARKET IS
DECLINING AND IN 1976 WILL AMOUNT TO ONLY ABOUT ONE-THIRD
OF TOTAL IMPORTED. THE U.S. SHARE IN 1975 WAS STILL
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OVER 50 PERCENT. THE MAIN REASON FOR THIS DECLINE

IS LOWER PRICE OF BRAZILIAN MEAL. ORBAN EXPLAINED WHY HUNGARY IS TURNING MORE TO BRAZILIAN MEALS.

4. THE FOLLOWING EXAMPLE DEMONSTRATES HIS POINT. WHEN HUNGARY CONTRACTS FOR A 50 PERCENT PROTEIN U.S. SOYBEAN MEAL AT \$200 PER M.T., THE DELIVERED MEAL CONTAINS ONLY 47 PERCENT. FOR THE FIRST 3 PERCENT LOWER PROTEIN CONTENT DELIVERED ARBITRATION PERMITS AN ADJUSTMENT AT THE RATE OF 1 TO 1 IN THE ORIGINAL COST. THIS MEANS THAT FOR EACH PERCENTAGE LOSS IN PROTEIN DELIVERED THE BUYER IN THE ABOVE CASE WOULD BE COMPENSATED \$2 OR BY A TOTAL OF \$6 PER TON. THIS ADJUSTMENT WOULD BRING THE ORIGINAL \$200 PURCHASE PRICE DOWN TO \$194. HOWEVER, HUNGARY KNOWS WELL THAT A 47 PERCENT MEAL IF PURCHASED AND IF IN FACT DELIVERED WOULD COST ONLY ABOUT \$185 PER TON. HUNGARY FIGURES ON THIS BASIS THAT IF THEY BUY 45-46 PERCENT BRAZILIAN MEAL AT \$180, AND THEY KNOW THEY WILL GET THE QUALITY CONTRACTED FOR, THEY ARE SAVING AROUND \$12 PER TON.

5. ORBAN SAID THAT DIFFERENCES IN PROTEIN PERCENTAGES BETWEEN CONTRACTS AND ACTUAL DELIVERIES OFTEN OCCUR. BUT THEIR EXPERIENCE IS THAT THESE DIFFERENCES ARE MUCH MORE FREQUENT WITH U.S. SUPPLIERS THAN BRAZILIAN SUPPLIERS. HE IS WELL AWARE THAT MEAL SUPPLIERS COULD MAKE MONEY BY WILLINGLY DELIVERING A LOWER GRADE MEAL THAN THAT STIPULATED IN CONTRACT. THE REASON IS RULES OF ARBITRATION WHICH DO NOT ADEQUATELY COMPENSATE FOR QUALITY DIFFERENTIALS.

6. COMMENT. HUNGARIAN EXPERIENCE WITH U.S. SUPPLIERS IS UNFORTUNATE. IF ORBAN IS CORRECT AND U.S. SUPPLIERS CONTINUE THEIR PRACTICE TO DELIVER LOWER QUALITY MEAL THAN THAT CONTRACTED FOR, THEY MAY WELL SEE CONTINUED SHRINKAGE OF THEIR MARKETS IN HUNGARY BENEFITING THE BRAZILIANS. BRAZILIAN SUPPLIERS APPEAR TO BE MORE RELIABLE ON QUALITY THAN U.S. SUPPLIERS. BUCHANAN UNQUOTE. ROBINSON

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